

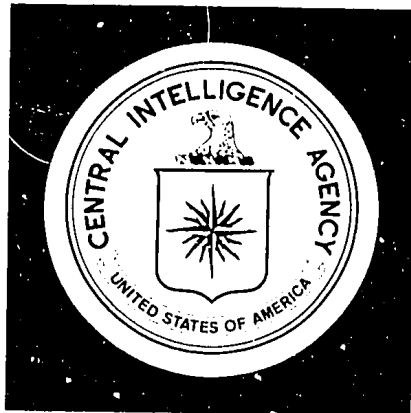
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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

Special Report

Soviet Farm Problems Slow Economic Pace

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China's economic problems

China's economic problems

66-70
71-75

Gross Nat'l
Product +1 1/2%

GRAIN PRODUCTION '71 148 mmt
'72 134 mmt
down -14 mmt

Annual Rate
of Growth

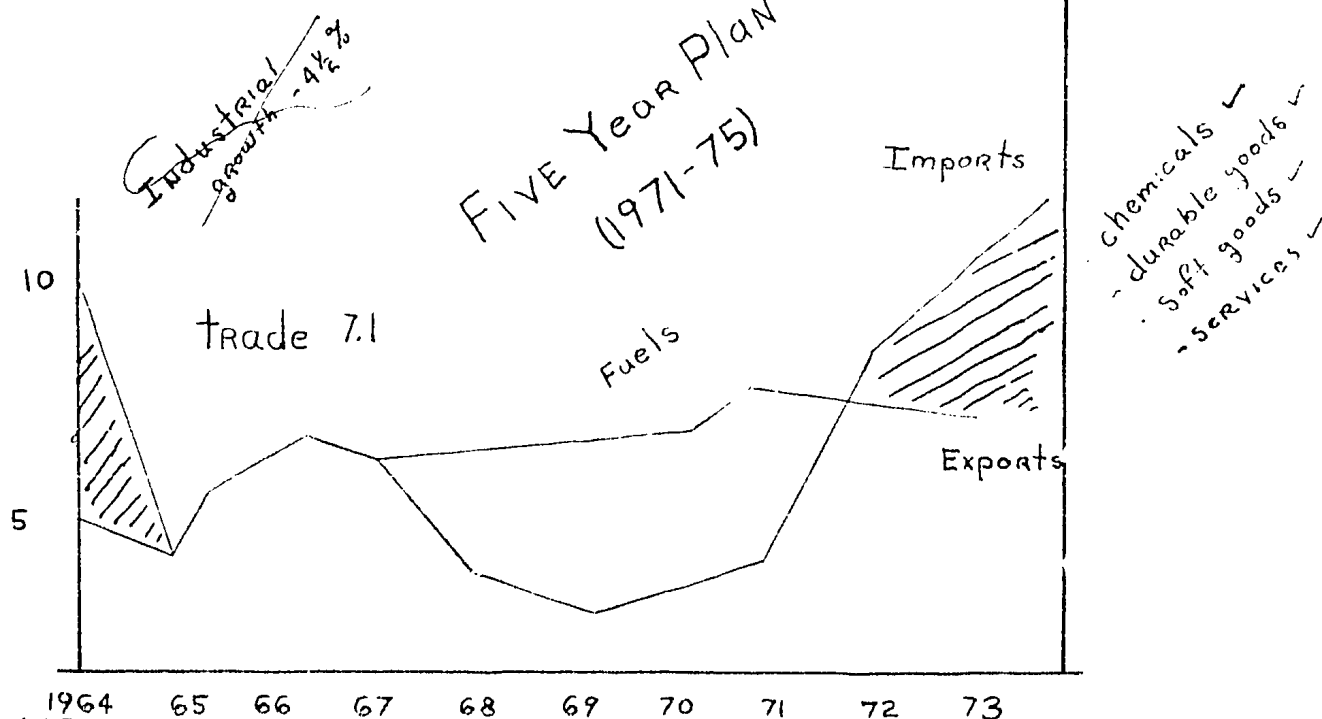
CONSTRUCTION 8.0

	Oil	Gas
Orig 73	8.7	9.2
New 73	7.5	7.7

Industry 4.5

- Agricultural
production -7.1

Trans Comm
4.2



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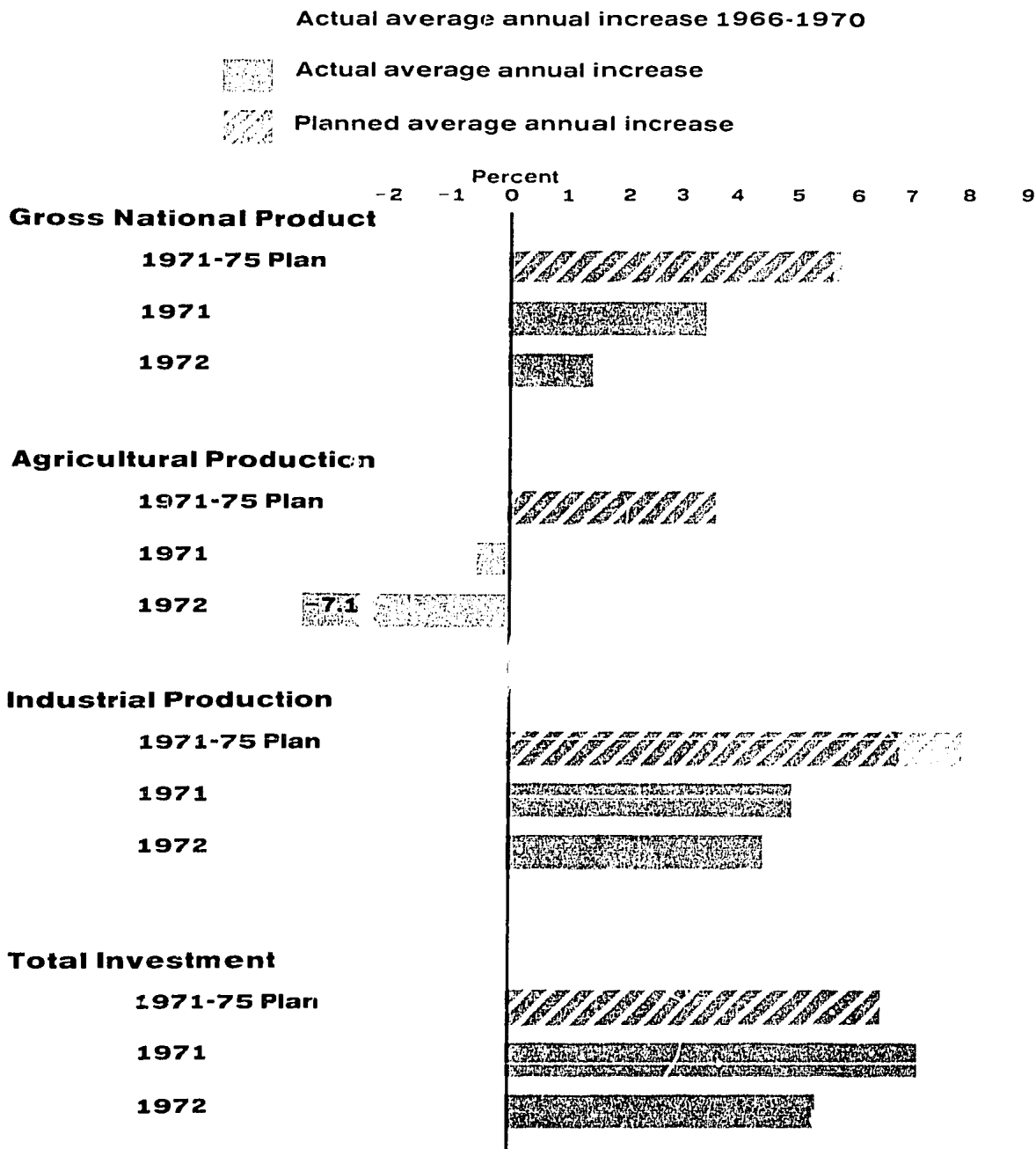
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Selected Indicators of Soviet Economic Performance



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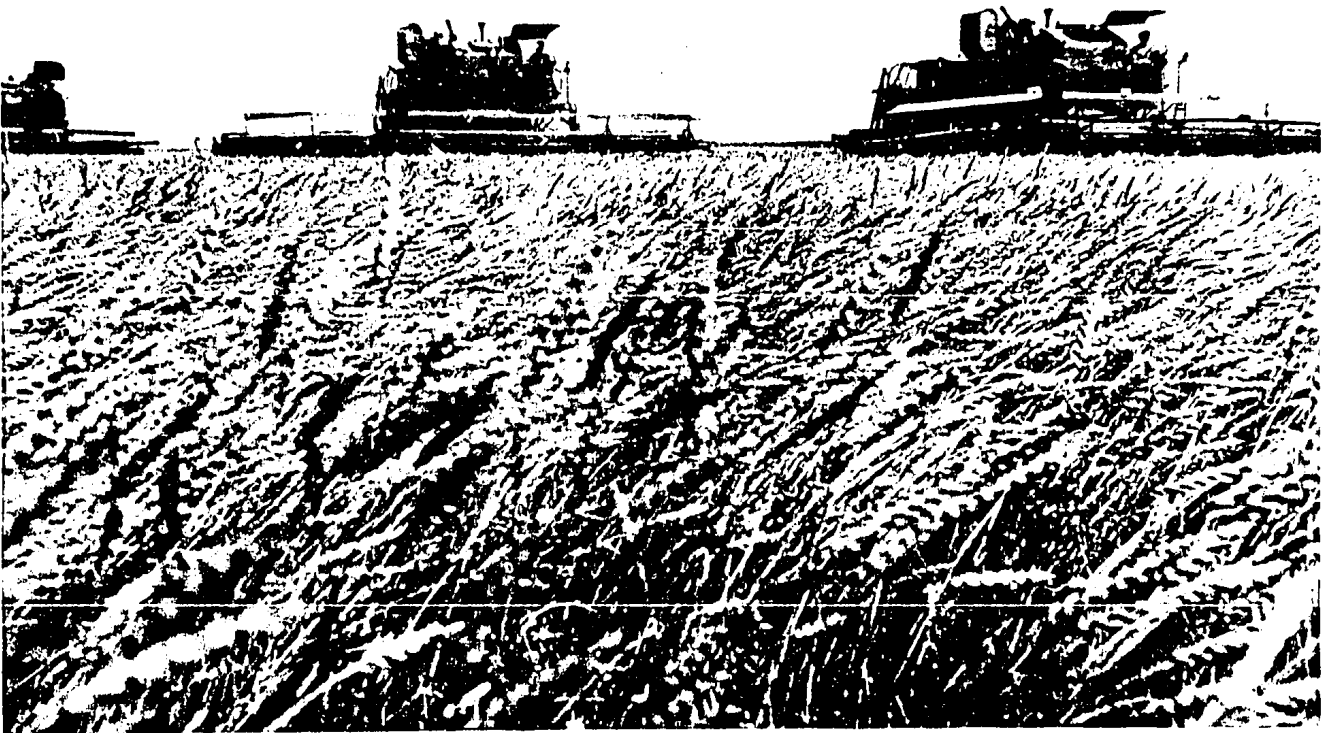
Soviet economic growth slowed drastically in 1972 as gross national production grew by only 1.5 percent, the lowest rate since World War II. An abrupt decline in farm output was largely responsible for the slowdown, but rates of growth in most major sectors of the economy were below those achieved in the recent past. The farm setbacks led the leadership to purchase unprecedented quantities of grain from the West. The lingering effects of the poor agricultural year as well as serious construction lags have forced significant changes in the 1973 plan, although the regime apparently hopes that a sharp recovery in farm output and tightened control over the investment program will salvage most of the original Five-Year Plan (1971-75). Consumer interests have held their own in the battle for investment funds. Prospects look poor for the fulfillment of plan goals, especially in agriculture. The key to the industrial goals, more rapid technological progress, still eludes the Soviets.

Agriculture Bows To Bad Weather

Unusually poor weather last year throughout the growing and harvesting seasons caused a 7-percent drop in farm output, one of the worst setbacks in the past 20 years. Still, Soviet farm output had been rising steadily, so most crops last year, including grain, were larger than those in some of the relatively good years of the 1960s. The bad luck began in January when the crop on one third of the winter grain acreage was destroyed by extreme cold and inadequate snow cover. A large spring planting to compensate for the winter losses was thwarted by the "worst drought in 100 years" in European Russia. Record crops in Kazakhstan and Siberia staved off disaster. The crop there was late in ripening, and unseasonably wet weather led to harvest losses.

The most serious shortfalls in agricultural production were in grain and potatoes—the core

In Better Times

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of the Soviet diet and essential to the production of meat, milk, and eggs. Sugar beets and sunflower seeds, the primary source of vegetable oil in the country, also suffered from the bad weather. Lower output of some animal products such as milk and wool reflected both fodder shortages and the severe winter. Distress slaughtering of livestock in anticipation of feed shortages this winter may have been partly responsible for an increase in the supply of meat.

As the prospects for the grain harvest waned, the USSR bought grain. By early August, it had purchased about 25 million tons, mainly from the US. After weather conditions got worse and it became clear that there also would be a sharp shortfall in potato production, the Soviets bought more grain from a number of countries as well as 1 million tons of potatoes. All told their purchases of grain for delivery by mid-1973 reached about 29 million tons worth about \$2 billion. This amount is more than three times the

quantity imported the previous year and is equivalent to about one fifth of the Soviet grain crop in 1971.

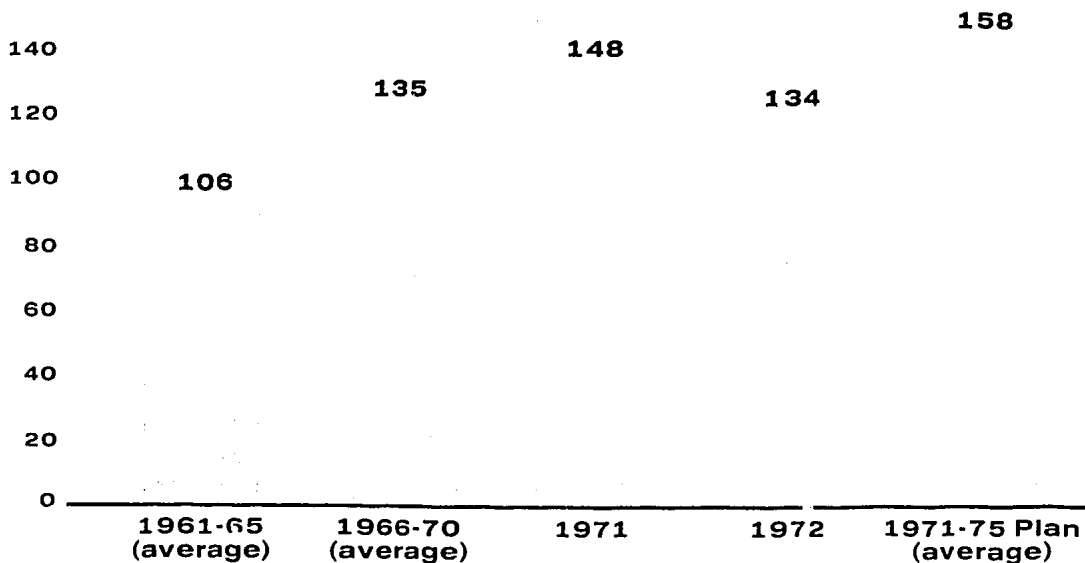
The record purchases also reflect the rising demand for grain as animal feed. Since 1969, Brezhnev's program to provide the consumer with more meat and other livestock products has upset the fragile balance between the amounts of grain grown and consumed. While the quantity of grain used for food has remained virtually the same over the past decade, grain used for livestock feed increased by about 40 percent between 1968 and 1971. Even after two bumper harvests in 1970 and 1971, the Soviets bought about 8 million tons of grain worth nearly \$500 million between mid-1971 and mid-1972.

Industry Lags Too

In 1972, industrial growth fell to about 4.5 percent, the smallest annual increase since World

USSR: Grain Production *

160 Million metric tons



*OER estimate of usable grain

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USSR: Grain Trade

30 Million metric tons

25

Net Imports

20

15

10

Exports

5

0

1964
Fiscal year

1965

1966

1967

1968

1969

1970

1971

1972

1973

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War II. The industrial slowdown could be traced largely to industry's failure to make planned productivity gains and to install the required amount of new plant and equipment—key factors in fulfilling the Five-Year Plan. The combined productivity of labor and capital in industry rose by less than .5 percent in 1971 and apparently did no better in 1972. The trouble in agriculture was another factor in the poor industrial performance. The harvest failure reduced the flow of agricultural raw materials to industry. Moreover, the emergency requirements of a larger than usual spring planting and the Brezhnev-directed campaign in the fall to save the harvest in Siberia and Kazakhstan diverted men and machinery from industry and caused transportation tie-ups in all sectors.

Although a number of industrial branches shared in the decline, a lag in the production of machinery and consumer goods had the greatest impact on industrial growth. Within the ma-

chinery category, there were shortfalls in the output of some producer durables—especially equipment for the chemical, petroleum, food, and light industries. Unsatisfactory growth in the two remaining components of the machinery category—military equipment and consumer durables—also contributed to its general decline. The output of military hardware grew at a very low rate, but it grew. Large reductions in the output of television sets and washing machines held back the production of consumer durables in general.

The poor performance in soft goods and processed foods can be attributed both to the shortage of agricultural raw materials and to construction difficulties. Although industrial materials generally kept pace with the plan schedule, there were notable weak spots. The oil and gas industries, for example, did not meet all of their goals, largely because of a failure to plan for sufficient replacement capacity to offset depletion in older producing areas.

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The investment program is in serious trouble. New projects readied for use in 1972 fell 5.7 billion rubles short of the planned 93.1 billion rubles, adding another 6 percent to the backlog of unfinished construction (10.5 percent had been added the previous year). Some of the same problems that hit industry also hurt investment—the diversion of resources to the agricultural sector and shortfalls in the output of key machinery items. The investment logjam may owe something to a longer run problem—the dilution of control over the allocation of investment funds, resulting in a wasteful dispersion of resources. The economic reform of 1965, which allowed more in-

vestment decisions at the local level, may be partly at fault.

Consumers Suffer

Last year was a disappointment to the Soviet consumer. Per capita consumption rose by only 2.5 percent, about half the average annual rate of increase in the preceding six years. Food consumption increased hardly at all on a per capita basis. Consumption of soft and durable goods increased at about the same moderate pace as in 1971. The regime failed to follow through on part of the welfare package promised for 1972. The

1972 Industrial Performance			
Sector	Exceeds Plan (by more than 2.5%)	Meets Plan (within 2.5%)	Falls Behind Plan (by more than 2.5%)
Fuels and power	Coal	Electric power; oil	Natural gas
Ferrous metals		Steel; steel pipe; finished rolled steel	
Forest products and paper		Furniture; paper	
Construction materials		Cement; roofing slate	Construction glass
Chemicals		Plastics & synthetic resins Mineral fertilizer Chemical pesticides Soda ash Chemical fibers Tires Sulfuric acid	Caustic soda
Machinery	Instruments & means of automation Computers & calculating equipment Bulldozers	Main-line locomotives Trucks Passenger cars Tractors Excavators Watches Television sets	Petroleum equipment Food industry equipment Main-line freight cars Farm machinery Radios & phonographs Chemical equipment Light industry equipment Grain combines Tractor trailers Refrigerators
Soft goods		Linen & silk fabric	Cotton & wool fabric Knitted wear; leather shoes
Food industry	Meat; mixed feed	Butter	Fish; whole milk products Vegetable oil

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program included a rise in the minimum wage and various income tax cuts, which have been rescheduled for 1973.

Although sporadic food shortages were of concern to the populace during the second half of the year, none went hungry. Daily per capita food consumption amounted to about 3,000 calories. It took extraordinary steps to ensure that food supplies were adequate. In addition to the massive grain purchases from the West, potatoes and some vegetables were bought from Poland and East Germany. The government also did its utmost to extract potatoes and vegetables from the private sector by allowing prices in collective farm markets to rise dramatically and by other methods that amounted in many areas to forced deliveries. At the same time, the leadership launched a nationwide campaign to save bread, and rationed food sales selectively.

Nevertheless, there were some bright spots for the consumer in 1972. More meat was available and sales of some consumer durables like passenger cars and furniture increased significantly. In addition, almost 108 million square meters of housing were built in 1972 as in 1971, the largest amounts since the peak year of 1960. Even so, the average space available per person was about 85 square feet, about 15 percent below the minimum standard set soon after the Revolution.

Priorities Unchanged

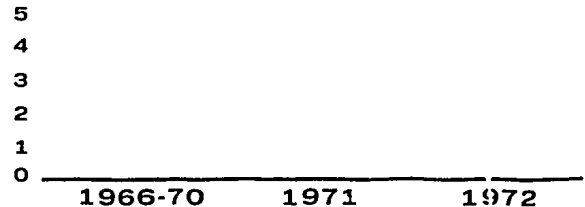
Faced with these setbacks, Soviet economic and political authorities grappled with the 1973 plan throughout the fall. The basic question was whether to stick with the 1971-75 plan priorities that placed consumer-related interests on a more equal footing with investment and defense—previously the heavily favored sectors. The leadership came to terms with circumstances by reducing many of the 1973 targets because of capacity limitations and raw material shortages. Nevertheless, the authorities seemed to regard last year as a temporary setback from which the economy could soon recover, and hope was held that the Five-Year Plan goals could still be met. In

USSR: Per Capita Consumption Average Annual Rate of Growth

Total Per Capita Consumption

-1972 consumption grew at half the earlier rate

6 Percent



Food

-despite sporadic food shortages, none went hungry

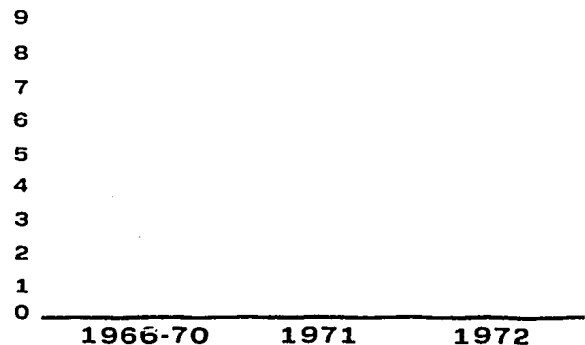
6 Percent



Durable Goods

-durables provided some bright spots for the consumer

10 Percent



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the battle for investment funds, the consumer interests held their own.

The 1973 goals announced by State Planning Chief Baybakov and Finance Minister Garbuzov in December imply a growth in Gross National Product of about 7 percent. The planned recovery depends mainly on a 12.6-percent increase in farm output and an acceleration in industrial output. Goals for the oil and gas, consumer goods, chemical, and machinery industries were cut. Construction will be held at the 1971 level to allow for regrouping in this sector.

Since the revised plans will limit the increase in the supply of consumer goods and services, the planners intend to hold down wage increases. If successful, this policy will hold the growth in personal income to about 5 percent this year, the same growth rate planned for total retail sales. Based on past experience, however, it will be difficult to keep the growth of personal income within the planned targets because of the competition for workers in a tight labor market.



Zaprozhet cars arrive in Moscow
Consumer interests hold their own

NEW GROWTH PLAN FOR 1973

Recovery in Farm Output Leads Sector Goals

(percentage growth)

	1972	Plan 1973
Industry	4.5	6.7
Construction	8.0	0
Agriculture	-7.1	12.6
Transportation and communications	4.2	5.7
Domestic trade	7.1	5.0
Services	3.7	3.8
GNP	1.5	7.1

Industrial Goals Below Original Targets

(percentage growth in output)

Branch of Industry	Original 1973 Plan	New 1973 Plan
Oil	8.7	7.5
Gas	9.2	7.7
Chemicals	10.7	8.5
Machinery	11.4	10.4
Soft goods	6.7	4.0
Processed foods	5.7	2.0

While incomplete, the investment data indicate no basic changes in priorities, but rather a program to rectify past errors and maximize the chances of attaining the original 1971-75 goals. First, the plan calls for a stringent limit on new project starts so that investment resources can be concentrated on projects "decisive to the fulfillment of the five-year plans." To this end, the growth in total investment in 1973 is to be held to 3.5 percent compared with the nearly 9 percent implied in the original plan. Secondly, more investment resources will be allocated to those parts of the economy where projects have been most behind schedule. The consumer-oriented sectors of the food industry and other light industries are scheduled to receive a generous volume of investment. Some of the increases are

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so large, however, that it is doubtful that they can be carried out without causing extensive confusion in the entire investment program.

Outlook

Barring another farm failure, Soviet economic growth in 1973 almost certainly will be greater than in 1972, but the 7-percent goal probably cannot be attained. The consumer will continue to experience sporadic shortages of potatoes and other vegetables before the next harvest, but tighter controls over distribution and more imports of agricultural products should help him over the rough spots. Meat consumption, however, probably will level off or decline because of the recent reduction in livestock herds and shortages of feed. Last year's grain purchases will strain the Soviet hard-currency payments position this year. About 24 million tons of grain worth about \$15 billion remain to be delivered. The debts probably will be paid through a combination of gold sales, credits from the US, and short- and medium-term credits available in Europe. In the longer run, if average weather prevails over the next three years, agriculture should rebound substantially permitting Gross National Product to grow by some 5 or 6 percent during each of the next three years. Even so, the average annual rate of growth in the first half of the 1970s would be significantly less than the rate in 1966-70.

The prospects do not look good for the attainment of the major Five-Year Plan goals. The harvest results of 1971-72 almost certainly doom the agricultural goal of a 3.7-percent annual increase. The planned annual average of 158 million tons of usable grain (195 million tons on a gross basis) in 1973-75 is virtually unattainable. In order to hit this target, the Soviets would have to harvest an annual average of 173 million tons in the period. This would be 39 million tons more than they gathered in 1972. Prospects are far from bright for the 1973 crop. By the end of the

fall sowing, only about 80 percent of the planned area had been sown to winter grains—a record shortfall. Given only an average winterkill, the Soviets will be in as poor a position as last year when spring arrives. The meat production targets for 1975 are realistic only if livestock inventories are not drastically reduced this winter and more grain is imported for feed. Even if the meat goal is met, supply will fall far short of demand, increasing consumer discontent.

Many of the industrial goals for 1971-75 are more modest than in previous plans, but a number of problems threaten their realization.

- Continued agricultural difficulties will restrict the supply of raw materials to industry.

- The acceleration in industrial output planned for 1974-75 depends upon the completion of major investment projects. Chronic construction lags worsened in 1971 and 1972, and the solutions planned are likely to be ineffectual.

- The 1971-72 targets for economizing the use of industrial raw materials fell by the wayside. The Five-Year Plan in industry is a taut one and depends upon these economies to achieve a balance between input and output.

- The most critical shortcoming has been the failure to come close to productivity goals. Technological progress was to be the key to higher productivity, but enterprises and ministries have been slow to adopt new processes and products. In 1973, the Soviets will again try their time-worn (and generally ineffective) remedy, further centralization.

All in all, the Five-Year Plan in both agriculture and industry seen in the perspective of last year's setbacks looks all but unattainable.

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